

Financial *Status Report*

December 31, 2017

This report summarizes the City of Carlsbad's General Fund revenues and expenditures through December 31, 2017. It compares revenues and expenditures for the first half of Fiscal Year 2017-18 and Fiscal Year 2016-17. In addition, the financial status of the Water and Wastewater Enterprises are included. This report is for internal use only. The figures presented here are unaudited and have not been prepared in accordance with Generally Accepted Accounting Principles.

San Diego County Economic Indicators

Carlsbad's revenue trends appear to mirror the San Diego region in general. Therefore, on a monthly basis, this report will provide the most recent economic data for the area: The San Diego County Economic Indicators. We believe this information provides the reader with some insight on the direction of the local economy.

October 2017



0.60%



Local Stock Prices

0.15%



Local Consumer Confidence

0.54%

Index of Leading Economic Indicators



0.06%

Building Permits



0.42%

Unemployment Insurance



0.00%

Help Wanted Advertising



2.33%

National Economy

University of San Diego Index of Leading Economic Indicators Report:

The USD Burnham-Moores Center for Real Estate's Index of Leading Economic Indicators for San Diego County rose 0.2 percent in September and another 0.6 percent in October. For October, the gain was led by a huge rise in the outlook for the national economy. There were more modest gains in initial claims for unemployment insurance, local stock prices, and consumer confidence. The only negative component was building permits, but they were down only slightly. Online help wanted advertising was unchanged.

With the gains in September and October, the USD Index has now increased or been unchanged for an entire year. The outlook then continues to be for positive but slower growth for the local economy at least through most of 2018. A review of the local economy through the third quarter of 2017 shows an increase of 23,300 wage and salary jobs compared to the same period in 2016. In contrast, wage and salary jobs increased by 35,800 in all of 2016 compared to 2015. So growth in San Diego's economy has already slowed. The sectors with the biggest increase in jobs are government (+6,200 jobs), health care (+5,000), construction (+4,300), real estate (+1,600), and finance and insurance (+1,200).

Residential units authorized by building permits dropped for the second month in a row in October. Through the third quarter, total units authorized were down 13.6 percent compared to the same period in 2016. Single-family units authorized were up by 54 percent for 2017 vs. 2016, but multi-family units authorized were down by a third. The labor market variables were mixed, but with a positive bias. Initial claims for unemployment insurance fell in October, which led to the first positive reading for this component since May. On the hiring front, help wanted advertising did not increase, but the unchanged reading broke a streak of seven consecutive declines in that component. The net result was that the seasonally adjusted unemployment rate fell to 3.7 percent in October. This compares to a rate of 4.1 percent in September and 4.7 percent in October 2016. After a sharp rise in September, local stock prices added a little more in October. Through the third quarter, local stock prices were up 19.8 percent. This compares favorably with the broader market averages, with the Dow Jones Industrial Average, the S&P 500, and the NASDAQ Composite indexes up 13.4 percent, 12.5 percent, and 20.7 percent respectively. Although the gains have not been as large as earlier in the year, consumer confidence continues to chug along, with the component now up for 16 months in a row. The outlook for the national economy is strong. The national Index of Leading Economic Indicators has now increased for 14 consecutive months. In terms of macroeconomic data, the second estimate of GDP growth for the third quarter came in at an annualized growth rate of 3.3 percent, which is up from the 3.1 percent growth of the second quarter. The national labor market is in good shape, with the unemployment rate falling to 3.7 percent and wage and salary jobs up a solid 261,000 in October.¹

General Fund Revenues



Property Taxes (\$22.4 million) – In December, the city began to see a much larger flow of property tax revenues. Property taxes reflect a six percent increase over Fiscal Year 2016-17. According to the County of San Diego Assessor's Office, assessed values in Carlsbad have increased by 5.36 percent for Fiscal Year 2017-18. This is the fifth year in a row that Carlsbad's assessed values have increased from year to year, and in line with assessed value increases with other cities in San Diego County for the year. This reflects

continued improvement in the housing market and new construction. The increase in this year's assessed values was due to a large increase in the assessed values of industrial properties in the city; the city saw smaller increases in residential and commercial property values for the year. This is the third year in a row since, the

¹ University of San Diego School of Business Administration, *USD Index of Leading Economic Indicators Up in September and October*, November 29, 2017.

Great Recession ended, that the city saw increases in assessed values in all three property components (residential, commercial and industrial).

The primary reasons that property taxes for the first six months of the fiscal year have increased by six percent as compared to the prior fiscal year are:

- Current taxes are up by \$1.2 million or 6.3 percent due to an increase in assessed values.
- Aircraft taxes are down by \$217,000 due to timing differences.
- Supplemental taxes are up by \$103,000 due to an increase in property resales.
- Payments for previous years' taxes are up by \$105,000 due to an increase in the collection of past due tax bills.
- Unitary taxes are up by \$20,000 due to timing differences.



Sales Taxes (\$18.2 million) – For the first half of the fiscal year, sales tax revenues are \$866,000 (or five percent) higher than the same time period in the previous fiscal year. Sales tax revenues for the year represent the actual sales tax receipts for the second and third calendar quarters of 2017 (up 5.0 percent and 3.4 percent respectively) as well as the first advance of the city's fourth calendar quarter of 2017 sales tax revenues. Advances are based on prior year activity adjusted by either a positive or negative growth factor, and are not a true indicator of the current economy.

For sales occurring in the second calendar quarter of 2017 (the most recent data available), key gains were seen in auto sales – new, heavy industry, restaurants, and office equipment. During the same period, key declines were seen in apparel stores, miscellaneous retail, health and government, and food markets. The largest economic segments in the city continue to be new auto sales, restaurants, apparel stores, department stores and miscellaneous retail. Together, they generate 68 percent of the city's sales tax revenues.



Transient Occupancy Tax (\$13 million) – The city's third highest General Fund revenue source on an annual basis is Transient Occupancy Tax (TOT or hotel tax), estimated at \$22.2 million for the current fiscal year. A tax of 10 percent of the rent amount is collected on all occupancies less than 30 days (transient) in duration. TOT collected for the first six months of the fiscal year reflect an increase of \$667,000, five percent more than the previous year. Higher room

rates and occupancy accounted for this positive variance. Year-to-date TOT figures represent taxes collected on hotel receipts through the month of November 2017.

Currently, there are 4,381 hotel rooms and 1,144 registered vacation rentals in the city (931 timeshares and 213 short-term vacation rentals). The average occupancy of hotel rooms over the most recent 12 months has been 72 percent, three percentage points higher than last year's average at this time.



Development Related Revenues (\$2.9 million) – Development related revenues, which include building permits, planning fees, building department fees, and engineering fees, reflect a moderate increase for the first six months of the fiscal year.

Development related fees are paid by developers to cover the cost of reviewing and monitoring development activities, such as plan checks and inspections. Engineering plan check fees are one of the first fees paid during the initial stages of development. Most of the activity in November was for residential development and included the Acacia Estates, the Ocean Breeze condominium development, the Cascada Verde project, the Beach Village Life mixed use project, and the demolition of three existing office buildings to be developed into a 33 unit condominium project. Finally, permits were issued for the Uptown Bressi mixed use project that includes 125 townhomes and 85,000 square feet of commercial use.

One source of development related revenue is building permits, which are up 12 percent compared to last fiscal year. The increase in building permit revenue is derived from the combination of an increase in the valuation of new construction, a decrease in residential permitting activity, and an increase in commercial/industrial permitting activity to date. The year-to-date valuation of new construction in the current fiscal year is \$233.6 million, while it was \$189.7 million in the previous fiscal year, a 23.1 percent increase. In December, Carlsbad issued building permits for 67 residential dwelling units, an increase from the 47 residential dwelling units permitted in November. In the northeast quadrant, building permits for 25 residential dwelling units were issued: 12 single-family homes will be built as part of Phases 9 and 10 of the Vistas at Robertson Ranch, seven single-family homes as part of the Terraces at Robertson Ranch, and six condominiums will be built as part of Acacia by Cornerstone Communities. In the northwest quadrant, building permits for 41 residential dwelling units were issued: 14 single-family homes will be built as part of Trails End, eight single-family homes will be built as part of the Presidio, 16 condominiums and one single-family home will be built as part of Magnolia Walk, and two second-dwelling units in the quadrant will be constructed. In the southwest quadrant, one single-family home will be built. For the current fiscal year, 237 residential permits have been issued, as compared to 527 permits issued during the same period last year.

During the month of December, no permits for commercial or industrial square feet were issued. Year-to-date, there has been 968,925 square feet of commercial/industrial permits issued, as compared to 222,579 square feet of commercial/industrial permits issued during the same period last year.



Business License Tax (\$2.4 million) – All entities doing business in the City of Carlsbad are required to have a valid business license. Business license revenue is estimated at \$5.1 million for the current fiscal year. Business license revenues are up \$512,000 or 27 percent more than the previous fiscal year. This is primarily due to a significant number of delinquent payments being made as well as timing differences as compared to the same period last year.

There are currently 10,016 licensed businesses operating within the city, 80 less than the prior year. The majority of taxed businesses (6,783 businesses) are located in Carlsbad, with 2,511 of these businesses home-based.



Income from Investments and Property (\$2.2 million) – For the first six months of the fiscal year, income from investments and property is up \$266,000 compared to the previous fiscal year.

Interest income is up \$201,000 for the year due to the combination of an 8.8 percent decrease in the average daily cash balance combined with a 23.2 percent increase in the average yield on the portfolio for the year (an increase in the yield from 1.186 percent last fiscal year to 1.461 percent in the current fiscal year).

Income from property sales and rentals is up by \$65,000 for the year, primarily due an increase in facility and pool lane rentals, and the sale of city property at public auctions.



Recreation Fees (\$1.8 million) – Recreation fees are generated through instructional classes, camps, youth and adult sports, special events, parent participation preschool, senior programs, and various aquatic programs. Recreation revenues are down by four percent compared to last fiscal year at this time. As the year progresses, staff will continue to evaluate revenue trends and program life cycles to help monitor and improve program performance.



Franchise Taxes (\$1.5 million) – Franchise taxes are generated from public utility sources, such as San Diego Gas & Electric (SDG&E), trash collection franchises, fiber optic antenna systems and cable franchises conducting business within city limits. Franchise tax revenue is estimated at \$5.5 million for the current fiscal year. Year-to-date franchise taxes are \$97,000 lower than the same period last year.

Cable television franchise revenues (Spectrum and AT&T) are down significantly by \$77,000 due to a decrease in the number of paid subscription services (premium video, equipment rental, on-demand, and programming services). An increase in trash collection revenue of \$38,000 is due to more commercial accounts coming online from new development activity within the city, more payments being made on time, and the timing of cash receipts from bi-monthly billings. Additionally, revenue for the fiber optic antennae system is down \$58,000 due to a re-negotiation of the lease resulting in a delay of the quarterly payment.

Approximately 43 percent of the total franchise tax revenue anticipated for the year will be collected from SDG&E during the month of April 2018.



Interdepartmental Charges (\$1.5 million) – Interdepartmental charges are \$148,000, or 9 percent, lower than last year. These charges are generated through engineering services charged to capital projects (down 21 percent, or \$129,000 due to recent staffing vacancies); reimbursed work from other funds (up \$11,000 due to timing differences); and miscellaneous interdepartmental expenses charged to funds outside the General Fund for services performed by

departments within the General Fund (down 2.9 percent, or \$30,000), the result of an updated cost allocation plan.



Ambulance Fees (\$1.2 million) – The city bills any individual who is transported in one of the city's ambulances. Through December 2017, receipts from ambulance fees are up \$22,000 or two percent compared to last fiscal year. Fees collected should have been higher due to the large increase in the number of billable transported patients however, there were less write-offs for uncollectable ambulance fees in the prior fiscal year. The number of billable

transported patients for the first six months of Fiscal Year 2017-18 (2,675) versus Fiscal Year 2016-17 (2,311) has increased moderately.



Other Revenue Sources (\$616,000) – Other revenue sources have increased by \$43,000 and include revenues received by the city to offset the costs of special studies or projects for developers; reimbursements for damage done to city streets, rights-of-way, and other city-owned property; donations; reimbursement from the Gas Tax Fund for traffic signal maintenance; and miscellaneous reimbursed expenses and refunds of prior year fees. The increase

to date represents an increase in contributions from developers for special studies and a small decrease in prior year refunds. These increases were partially offset by a decrease in loss recovery reimbursements, and a decrease in administrative cost reimbursements received for managing developer deposits.



Transfer Taxes (\$533,000) – When real property is sold, the County Assessor's Office charges a transfer tax. The transfer tax rate in San Diego County is \$1.10 per thousand multiplied by the selling price of the property. The city receives 50 percent of the transfer tax charged for sales within the City of Carlsbad. Year-to-date revenues have increased modestly, due to recent strong housing and industrial development throughout the city.



Other Licenses and Permits (\$527,000) – Other licenses and permits consist of plumbing, electrical, mechanical, right-of-way, grading, conditional land use, lagoon, and other miscellaneous permit revenues. These permits usually increase/decrease along with increases/decreases in development activity. The decrease in revenues for the year is due to a reclassification of revenues that occurred during the implementation of the new permitting system (in November

2016). Some permitting activity that was previously reflected as other licenses and permits is now shown as building permits. Without this reclassification, other licenses and permits would have shown an increase for the year, while building permit revenues would have shown a smaller increase for the year.



Other Charges or Fees (\$399,000) – Other charges and fees are generated through the sale of city documents, such as staff reports, blueprints and copies; general fees collected for false alarms, easements and agreements, weed abatement and kiosk signs; audio/visual rental fees; and general services, such as mutual aid response, mall police services, emergency response services, reports, etc. For the first six months of the fiscal year, revenues are down by

\$69,000 but higher than the expected budget at this time of \$237,000. This decrease is due to a drop in the volume of mutual aid reimbursements and fire inspection fees received this fiscal year as compared to last fiscal year at this time.



Other Intergovernmental Revenues (\$334,000) – Other intergovernmental revenues include miscellaneous receipts received from the state or federal governments, as well as local school districts. Included in the \$334,000 received this year is the solar rebates from the Center for Sustainable Energy (Alga Norte Park solar project), state mandated cost reimbursements, Department of Justice vice/narcotics overtime reimbursements, a federal fire training grant, a grant from SDG&E to purchase heavy weather coats for the CERT program, and

senior nutrition grants. The increase to date is a result of additional solar rebates received from the Center for Sustainable Energy as compared to the prior fiscal year.



Fines and Forfeitures (\$304,000) – Fines and forfeitures represent fees collected for code violations, parking citations, overdue fines, and returned checks. The city recognizes revenues when the citizen pays the fine or forfeiture, as opposed to when the fine is imposed. The decrease to date is due to a large drop in revenues derived from moving violations plus smaller decreases in revenues received from parking citations and miscellaneous city fines.



Homeowners' Exemptions (\$52,000) – When property taxes are calculated on a particular parcel of property, the first \$7,000 of property value is excluded from the property tax calculation. The state then reimburses the city for this mandated exemption. This reimbursement is entitled Homeowners' Exemption revenue and is shown under intergovernmental revenues.

Expenditures

Total General Fund expenditures and encumbrances through the month of December 2017 are \$86.5 million, compared to \$97.0 million at the same time last year. This leaves \$93.8 million, or 52.0 percent, available through the fiscal year ending June 30, 2018. If funds were spent in the same proportion as the previous year, the General Fund would have 49.4 percent available. This difference is attributable to some very large transfers out of the General Fund that were done at this time last year. Excluding the transfers out, contingencies, and non-departmental charges, the percentage available at December 31, 2017 is 51.0 percent, slightly lower than the 52.1 percent available at December 31, 2016.

The adopted General Fund budget for Fiscal Year 2017-18 increased by \$4 million due to the following factors:

- Increased personnel costs:
 - \$2.8 million in additional salary costs associated with previously negotiated wage increases as well as the net addition of 9.0 full-time staff, 1.0 limited-term staff and 16.33 part-time staff (predominantly for expanded parks and recreation programs and facilities, and to assist with day-to-day operations)
 - \$400,000 in additional retirement costs due to PERS rate increases and higher salaries
 - Increased health insurance and workers' compensation rates
 - Part-time employee salary increases
- Increased maintenance and operations costs (increase of \$600,000):
 - General inflationary adjustments of two percent
 - Inflationary adjustments partially offset by one-time expenditures from the previous fiscal year
 - General decreases in the internal service charges
 - Increases in credit card fees, citywide training, legal professional services, public nuisance abatement costs, costs associated with the new permitting system, operating costs associated with several new park facilities, fire engine equipment and a chemical detox unit, and upgrades to the Safety Training Center audio visual equipment
- Decreased capital outlay costs of \$200,000
- Increased transfers out of the General Fund:
 - Increase in the annual transfer to the Infrastructure Replacement Fund and the transfer to the Lighting and Landscaping District Funds for medians and trees

Council Contingency

The City Council has allocated \$1.5 million out of the General Fund budget for unanticipated emergencies or unforeseen program needs. As of December 31, 2017, \$802 has been authorized out of the contingency account as shown in the chart below.

CONTINGENCY ACCOUNT USE OF FUNDS			
EXPLANATION	AMOUNT	DATE	RESOLUTION NUMBER
ADOPTED BUDGET	\$1,500,000		
USES:			
Special Events Grant for In-kind Services for the Lancer Day Homecoming Parade	(\$676)	10/31/2017	City Manager
Community Spirit Grant for In-kind Services for the Veterans Day Remembrance	<u>(126)</u>	12/13/2017	City Manager
TOTAL USES	<u>(802)</u>		
AVAILABLE BALANCE	<u><u>\$1,499,198</u></u>		

Detailed schedules of General Fund revenues and expenditures are provided on the following pages.

GENERAL FUND REVENUE COMPARISON					
	EXPECTED BUDGET AS OF 12/31/17	ACTUAL FY 2017 AS OF 12/31/16	ACTUAL FY 2018 AS OF 12/31/17	CHANGE FROM YTD 2017 TO YTD 2018	PERCENT CHANGE
TAXES					
PROPERTY TAX	\$22,053,830	\$21,238,633	\$22,435,860	\$1,197,227	6%
SALES TAX	17,561,931	17,380,551	18,246,446	865,895	5%
TRANSIENT OCCUPANCY TAX	12,288,923	12,339,339	13,006,669	667,330	5%
FRANCHISE TAX	1,640,738	1,628,916	1,532,126	(96,790)	-6%
BUSINESS LICENSE TAX	2,250,119	1,910,566	2,422,776	512,210	27%
TRANSFER TAX	397,976	489,033	533,297	44,264	9%
TOTAL TAXES	56,193,517	54,987,038	58,177,174	3,190,136	6%
INTERGOVERNMENTAL					
VEHICLE LICENSE FEES	0	0	0	0	0%
HOMEOWNERS EXEMPTIONS	52,323	52,204	52,016	(188)	0%
OTHER	148,542	195,966	333,930	137,964	70%
TOTAL INTERGOVERNMENTAL	200,865	248,170	385,946	137,776	56%
LICENSES AND PERMITS					
BUILDING PERMITS	861,950	1,001,533	1,120,299	118,766	12%
OTHER LICENSES & PERMITS	411,265	745,710	527,358	(218,352)	-29%
TOTAL LICENSES & PERMITS	1,273,214	1,747,243	1,647,657	(99,586)	-6%
CHARGES FOR SERVICES					
PLANNING FEES	368,077	560,064	373,784	(186,280)	-33%
BUILDING DEPARTMENT FEES	215,383	445,453	662,751	217,298	49%
ENGINEERING FEES	386,502	667,428	698,126	30,698	5%
AMBULANCE FEES	1,321,937	1,218,889	1,241,026	22,137	2%
RECREATION FEES	1,862,190	1,854,211	1,784,591	(69,620)	-4%
OTHER CHARGES OR FEES	236,570	468,337	398,861	(69,476)	-15%
TOTAL CHARGES FOR SERVICES	4,390,659	5,214,382	5,159,139	(55,243)	-1%
FINES AND FORFEITURES	387,318	366,681	303,682	(62,999)	-17%
INCOME FROM INVESTMENTS & PROPERTY	1,916,818	1,910,020	2,176,185	266,165	14%
INTERDEPARTMENTAL CHARGES	1,577,482	1,675,288	1,527,261	(148,027)	-9%
OTHER REVENUE SOURCES	541,773	572,819	615,707	42,888	7%
TRANSFERS IN	10,000	10,000	11,500	1,500	15%
TOTAL GENERAL FUND	\$66,491,647	\$66,731,641	\$70,004,251	\$3,272,610	5%
(1)					
(1) Calculated General Fund revenues are 5.3% above estimates as of December 31, 2017.					

**GENERAL FUND
EXPENDITURE STATUS BY DEPARTMENT**

DEPT DESCRIPTION	TOTAL	AS OF 12/31/17		
	BUDGET FY 2017-18	AMOUNT COMMITTED (b)	AVAILABLE BALANCE	% AVAILABLE (c)
POLICY/LEADERSHIP GROUP				
CITY COUNCIL	\$552,233	\$223,862	\$328,371	59.5%
CITY MANAGER	2,906,114	1,221,364	1,684,750	58.0%
COMMUNITY OUTREACH AND ENGAGEMENT	2,189,463	1,169,341	1,020,122	46.6%
CITY CLERK AND RECORDS MANAGEMENT	1,120,294	485,638	634,656	56.7%
CITY ATTORNEY	1,829,486	797,425	1,032,061	56.4%
CITY TREASURER	262,059	135,865	126,194	48.2%
TOTAL POLICY/LEADERSHIP	8,859,649	4,033,495	4,826,154	54.5%
ADMINISTRATIVE SERVICES				
FINANCE	5,663,882	2,608,102	3,055,780	54.0%
HUMAN RESOURCES	4,214,607	2,054,087	2,160,520	51.3%
TOTAL INTERNAL SERVICES	9,878,489	4,662,189	5,216,300	52.8%
PUBLIC SAFETY				
POLICE	39,135,238	19,087,975	20,047,263	51.2%
FIRE	23,233,414	11,787,374	11,446,040	49.3%
TOTAL PUBLIC SAFETY	62,368,652	30,875,349	31,493,303	50.5%
COMMUNITY SERVICES				
COMMUNITY AND ECONOMIC DEVELOPMENT	12,216,891	6,089,357	6,127,534	50.2%
HOUSING AND NEIGHBORHOOD SERVICES	1,564,115	889,382	674,733	43.1%
LIBRARY AND CULTURAL ARTS	14,164,659	6,062,704	8,101,955	57.2%
PARKS AND RECREATION	18,519,170	10,035,872	8,483,298	45.8%
TOTAL COMMUNITY SERVICES	46,464,835	23,077,315	23,387,520	50.3%
PUBLIC WORKS				
PUBLIC WORKS ADMINISTRATION	3,231,692	831,708	2,399,984	74.3%
ENVIRONMENTAL MANAGEMENT	876,399	447,203	429,196	49.0%
GENERAL SERVICES	10,346,965	5,317,619	5,029,346	48.6%
TRANSPORTATION	7,398,286	4,045,030	3,353,256	45.3%
TOTAL PUBLIC WORKS	21,853,342	10,641,560	11,211,782	51.3%
NON-DEPARTMENTAL & CONTINGENCY				
OTHER NON-DEPARTMENTAL (a)	16,857,884	734,852	16,123,032	95.6%
TRANSFERS OUT	12,455,000	12,455,000	0	0.0%
CONTINGENCY	1,499,198	0	1,499,198	100.0%
TOTAL NON-DEPT & CONTINGENCY	30,812,082	13,189,852	17,622,230	57.2%
TOTAL GENERAL FUND	\$180,237,049	\$86,479,760	\$93,757,289	52.0%

- (a) Other non-departmental includes technology innovation, property tax administration fees, assessment district administration, citywide litigation expenses, 2014 citywide fires, and other items not attributed to a specific department.
- (b) Total committed includes expenditures and encumbrances.
- (c) Amount available would be 49.4% if funds were spent in the same proportion as the previous year.

Water Enterprise

WATER OPERATIONS FUND					
DECEMBER 31, 2017					
	BUDGET FY 2017-18	YTD (*) 12/31/2016	YTD (*) 12/31/2017	CHANGE FROM YTD 2016-17 TO YTD 2017-18	PERCENT CHANGE
REVENUES:					
WATER DELIVERY	\$ 35,300,000	\$ 19,927,725	\$ 21,895,055	\$ 1,967,330	9.9%
INTEREST	251,000	131,152	146,976	15,824	12.1%
MISC. SERVICE CHARGES	296,000	154,002	164,413	10,411	6.8%
PROPERTY TAXES	3,605,000	1,373,071	1,471,947	98,876	7.2%
FINES, FORFEITURES & PENALTIES	260,000	137,592	178,456	40,864	29.7%
OTHER REVENUES	648,000	891,434	338,175	(553,259)	-62.1%
TOTAL OPERATING REVENUE	40,360,000	22,614,976	24,195,022	1,580,046	7.0%
EXPENSES:					
STAFFING	3,681,630	1,726,452	1,855,026	128,574	7.4%
INTERDEPARTMENTAL SERVICES	2,243,082	1,122,082	1,061,483	(60,599)	-5.4%
PURCHASED WATER	22,800,000	10,820,648	12,824,734	2,004,086	18.5%
MWD/CWA FIXED CHARGES	6,800,000	3,393,284	3,266,031	(127,253)	-3.8%
OUTSIDE SERVICES/MAINTENANCE	1,583,326	164,903	348,428	183,525	111.3%
DEPRECIATION/REPLACEMENT	3,910,000	1,903,654	1,955,000	51,346	2.7%
MISCELLANEOUS EXPENSES	1,101,641	375,321	601,436	226,115	60.2%
CAPITAL OUTLAY	31,530	3,839	12,965	9,126	237.7%
TOTAL OPERATING EXPENSES	42,151,209	19,510,183	21,925,103	2,414,920	12.4%
OPERATING INCOME/(LOSS)	\$ (1,791,209)	\$ 3,104,793	\$ 2,269,919	\$ (834,874)	-26.9%
(*) Adjusted to reflect timing differences for water purchases and depreciation.					

Revenues



- The increase in water delivery revenues is the result of an average 5.25 and 4.85 percent increase in water rates charged to our customers (water sales and delivery charges) that went into effect in January 2016 and January 2017 respectively, coupled with a six percent increase in water sales during the first six months of the fiscal year due to less restrictive water usage constraints.
- An 11.3 percent increase in the average cash balance combined with a 23.2 percent increase in the yield in the Treasurer's portfolio has led to higher interest earnings.
- The increase in miscellaneous service charges is primarily due to increases in new account charges and quick turn-on revenues.
- The increase in property taxes are the result of an increase in assessed values.
- The increase in fines and forfeitures is due primarily to an increase in late charges revenue.
- The decrease in other revenues is due to a prior year reimbursement from Poseidon related to third party consultant costs in connection with the construction of the desalinated water pipeline.

Expenses



- A 7.7 percent rate increase in the variable cost of water purchased from the San Diego County Water Authority (SDCWA) coupled with a 7.9 percent increase in the amount of water purchased, represent the primary drivers in this variance.
- Decreases in the calendar year 2017 SDCWA fixed charges have led to lower fixed charges.
- Increases in software services to support remote meter reading have led to higher outside services/maintenance expenses.
- Increases in parts, meters and fittings are the largest factors in the miscellaneous expenses variance.
- The purchase of tablets to increase operational efficiencies for maintenance crews in the field account for the increase in capital outlay expenses.

Wastewater Enterprise

WASTEWATER OPERATIONS FUND DECEMBER 31, 2017					
	BUDGET FY 2017-18	YTD (*) 12/31/2016	YTD (*) 12/31/2017	CHANGE FROM YTD 2016-17 TO YTD 2017-18	PERCENT CHANGE
REVENUES:					
CHARGES FOR CURRENT SERVICES	13,035,000	6,923,230	6,959,051	35,821	0.5%
INTEREST	75,000	49,190	71,863	22,673	46.1%
OTHER REVENUES	290,000	132,866	121,472	(11,394)	-8.6%
TOTAL OPERATING REVENUE	13,400,000	7,105,286	7,152,386	47,100	0.7%
EXPENSES:					
STAFFING	2,333,179	933,291	1,045,021	111,730	12.0%
INTERDEPARTMENTAL SERVICES	1,323,235	637,185	643,534	6,349	1.0%
ENCINA PLANT SERVICES	3,469,456	1,643,987	1,692,848	48,861	3.0%
OUTSIDE SERVICES/MAINTENANCE	750,723	137,825	146,000	8,175	5.9%
DEPRECIATION/REPLACEMENT	3,650,000	1,811,238	1,825,000	13,762	0.8%
MISCELLANEOUS EXPENSES	713,795	238,506	275,174	36,668	15.4%
CAPITAL OUTLAY	238,261	3,277	237,225	233,948	7139.1%
TOTAL OPERATING EXPENSES	12,478,649	5,405,309	5,864,802	459,493	8.5%
OPERATING INCOME/LOSS	921,351	1,699,977	1,287,584	(412,393)	-24.3%
(*) Adjusted to reflect timing differences for Encina quarterly invoices and depreciation.					

Revenues



- Charges for current services are flat as there was no rate increase in January 2017.
- Cash balances in the fund have increased by 21.5 percent from last year, combined with an increase in the average yield on the portfolio of 23.2 percent, have impacted interest earnings for the year.
- The decrease in other revenues is driven primarily by the engineers within the Enterprise charging less of their time to capital improvement projects.

Expenses



- For Fiscal Year 2017-18, a total of 1.1 full-time positions have been reallocated to the Wastewater Enterprise from other programs to better reflect each programs' workload.
- Additional utility billing chargebacks, miscellaneous interdepartmental charges and general liability chargebacks have led to higher interdepartmental charges.
- Encina plant services to date are a combination of actuals and an estimate of the annual Encina expense prorated on a monthly basis.
- Increases in outside services/maintenance are primarily the result of asphalt repairs and software maintenance services.
- Depreciation expenses have been increasing on an annual basis as the Enterprise acquires new equipment/infrastructure and replaces old equipment/infrastructure.
- Increases in miscellaneous expenses are primarily due to the acquisition of asset management software.
- The purchase of a new vacutor truck is the primary driver in the capital outlay variance.